

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 10591

DEPT PASS BAGHDAD

E.O. 11652: GDS
TAGS: ENRG, OPEC, CIEC, BR
SUBJECT: BRAZILIAN FOREIGN MINISTRY OFFICIAL'S VIEW OF THE
IMPLICATIONS OF THE OPEC PRICE DECISION

REF: (A) BRASILIA 10288 (NOTAL); (B) BRASILIA 10252 (NOTAL);
(C) BRASILIA 10420 (NOTAL); (D) CARACAS 14652 (NOTAL)
(E) BRASILIA 10590

1. SUMMARY. BRAZILIAN FON. MIN. OFFICIAL HAS COMMENTED TO US
THAT THE HETEROGENEITY OF ECONOMIC INTERESTS OF OPEC MEMBERS, IN
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HIS OPINION, HAS HELPED BRING OPEC TO A "DANGEROUS IMPASSE" --
BUT, HE BELIEVED, THE EXPECTED SELLER'S MARKET FOR PETROLEUM IN
1977 WILL ALLEVIATE THE PRESSURE ON OPEC. THE OFFICIAL
FORESAW THAT THE EDDC'S MIGHT COALESCE SOMEWHAT FURTHER
IN CIEC IN ORDER TO PRESSURE OPEC AS WELL AS THE
INDUSTRIALIZED WORLD. BRAZIL, HOWEVER, EXPECTS NOT TO

TAKE A LEADERSHIP ROLE IN EDDC EFFORTS BECAUSE OF ITS VULNERABILITY TO OPEC. THE OFFICIAL DOUBTED THAT BRAZIL COULD DIVERSIFY SIGNIFICANTLY ITS SOURCES OF PETROLEUM SUPPLY IN THE SHORT TERM. HE COMMENTED THAT GASOLINE RATIONING IN BRAZIL WOULD BRING LITTLE ECONOMIC BENEFIT. END SUMMARY

2. ON DEC. 21, A WELL PLACED MIDDLE-LEVEL FONMIN OFFICIAL WITH RESPONSIBILITIES IN THE ECONOMIC AND ENERGY AREA GAVE EMBOFF HIS VIEW OF THE IMPLICATIONS OF THE OPEC PRICE DECISION.

3. THE OFFICIAL COMMENTED THAT THE INCREASE WAS NOT JUSTIFIED. HE BELIEVED THE SPLIT DECISION, WHICH HAS BROUGHT OPEC TO A "DANGEROUS IMPASSE", REFLECTED THIS ECONOMIC REALITY, WHICH IS BASED ON THE SHARP HETEROGENEITY OF INTERESTS OF OPEC MEMBERS. FOR INSTANCE, SAUDI ARABIA'S RESERVES ARE SO GREAT THAT IT HAS AN INTEREST IN NOT PUSHING PRICES SO HIGH AS TO STIMULATE THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES. AS ANOTHER EXAMPLE, HE CONTRASTED VENEZUELAN AND ALGERIAN COMMITMENTS TO ASSISTANCE FOR EDDC'S AGAINST THE ABSENCE OF A COMMITMENT TO "LDC SOLIDARITY" BY KUWAIT, UAE, AND LIBYA. A KEY REASON WHY OPEC UNITY HAS PERSISTED THUS FAR, THE OFFICIAL SAID, WAS BECAUSE IT FUNCTIONED IN AN EXTREMELY SIMPLE WAY. THE TWO PRICE SYSTEM, HOWEVER, WILL MAKE MUCH MORE COMPLICATED THE FUNCTIONING OF OPEC, AND IT MIGHT WELL REQUIRE QUOTAS. BUT THE FORECAST THAT 1977 WILL BE A SELLER'S MARKET FOR PETROLEUM WILL ALLEVIATE THE PRESSURE ON OPEC.

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4. THE OFFICIAL OBSERVED THAT EDDC CONCERNS ABOUT A PROSPECTIVE OPEC INCREASE STARTED TO TAKE SHAPE AT THE SEPTEMBER CIEC MEETING, AND "WERE FULLY REALIZED" AT THE NOVEMBER MEETING, WHEN THE EDDC'S MADE CLEAR THAT THEY WOULD NOT GIVE THEIR PRIOR ENDORSEMENT TO AN OPEC PRICE INCREASE. THE OFFICIAL PREDICTED THAT OPEC'S POLITICAL STRATEGY IN THE COMING MONTHS WOULD STRESS THAT THE SPLIT OPEC DECISION REFLECTS THE EFFORT BY THE INDUSTRIALIZED COUNTRIES TO BREAK LDC UNITY (AS OPPOSED TO OPEC UNITY). (COMMENT. THIS SQUARES WITH REF. D.) THE OFFICIAL SAID HE DOUBTED THE EDDC'S WOULD "BELIEVE" THIS STRATEGY, ESPECIALLY BECAUSE MOST EDDC'S HAVE NOW LARGELY GIVEN UP THEIR HOPES THAT: (A) THEY COULD EMULATE OPEC IN FORMING OTHER CARTELS, AND (B) OPEC ASSISTANCE WOULD BE FORTHCOMING. ALSO, THE SMALLEST EDDC'S ARE NOW PERCEIVING MORE CLEARLY THE IMPACT OF OPEC PRICE DECISIONS, THE OFFICIAL SAID. HE SPECULATED THAT THE EDDC'S MIGHT NOW COALESCE

SOMEWHAT FURTHER IN CIEC IN ORDER TO PUT PRESSURE ON OPEC AS WELL AS ON THE INDUSTRIALIZED COUNTRIES. ANOTHER TACTIC THAT MIGHT EMERGE IN CIEC, THE OFFICIAL SPECULATED, WOULD BE A THREAT BY SAUDI ARABIA AND THE UAE THAT, UNLESS THE INDUSTRIALIZED WORLD WERE MORE FORTHCOMING IN CIEC IN THE FIRST-HALF OF 1977, SAUDI ARABIA AND THE UAE WOULD RAISE THEIR PRICES ON JULY 1, 1977, BY 10 PERCENTAGE POINTS, THUS EQUALING OPEC MEMBER PRICES AS OF THAT DATE.

5. BRAZIL'S ROLE IN CIEC, THE OFFICIAL COMMENTED, WILL CONTINUE TO BE LOW PROFILE. BRAZIL, HE SAID, HAD "TAKEN A RISK" IN LEADING EDDC OPPOSITION IN THE G-19 TO A PRIOR ENDORSEMENT OF THE OPEC PRICE DECISION. BRAZIL REMAINS HEAVILY DEPENDENT ON OPEC OIL, HOWEVER, AND THUS CANNOT CONTINUE TO ACT AS AN EDDC LEADER IN THE G-19.

6. BRAZILIAN PETROLEUM PURCHASING PATTERNS, THE OFFICIAL CONFIDENTIAL

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COMMENTED, COULD NOT BE SWITCHED MORE THAN marginally IN THE SHORT-TERM IN FAVOR OF SAUDI ARABIA AND THE UAE. NOR, ALTERNATIVELY, COULD BRAZIL REDUCE SIGNIFICANTLY IN THE SHORT-TERM ITS TRADE DEFICIT WITH OPEC BY SHIFTING PETROLEUM PURCHASES TOWARD OPEC COUNTRIES THAT PURCHASE BRAZILIAN EXPORTS. BRAZIL SELLS ONLY MODEST AMOUNTS TO THE OPEC COUNTRIES AND SUBSTANTIAL SHIFTS IN TRADE FLOWS USUALLY GENERALLY DO NOT COME QUICKLY. DIVERSIFYING SOURCES OF SUPPLY HE ADDED, MAY ALSO BE DIFFICULT AT THIS TIME BECAUSE THE TWO-PRICE SYSTEM WILL MAKE SOME OPEC MEMBERS WARY OF EFFORTS BY CONSUMERS TO SHIFT SOURCES OF SUPPLY.

NOTE BY OCT: BRASILIA 10591 NOT PASSED BAGHDAD.

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7. AS FOR BRAZILIAN DOMESTIC STRATEGY, THE OFFICIAL CONFIRMED PRESS STORIES THAT NO DECISION HAD BEEN MADE ON RATIONING. (THE PRESS REPORTS PRESIDENT GEISEL WILL ADDRESS THIS ISSUE IN EARLY JANUARY.) HE PERSONALLY OPPOSED THE IDEA BECAUSE: (A) FUEL AND DIESEL OIL RATIONING COULD BRING ECONOMIC "SHOCKS", AND (B) RATIONING OF GASOLINE, WHICH ACCOUNTS FOR ABOUT 28 PERCENT OF BRAZIL'S TOTAL CONSUMPTION OF PETROLEUM DERIVATIVES, WOULD BRING VERY LITTLE ECONOMIC BENEFIT, ONLY A POSSIBLE PSYCHOLOGICAL EFFECT. HE PREDICTED THAT GASOLINE RATIONING, IN THE MOST OPTIMISTIC SCENARIO, WOULD REDUCE GASOLINE CONSUMPTION ONLY BY ABOUT CONFIDENTIAL

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10 PERCENT, AND THUS REDUCE CONSUMPTION OF TOTAL PETROLEUM DERIVATIVES BY LESS THAN THREE PERCENT.

8. IN A MEETING WITH THE MINISTRY OF MINES AND ENERGY SECRETARY GENERAL, PROFESSOR ARNALDO BARBALHO, ON ANOTHER SUBJECT ON DECEMBER 22, ECON/COM'L. COUNSELOR HAD OCCASION TO DISCUSS OPEC PRICE INCREASE AND IMPLICATIONS FOR BRAZIL'S DIVERSIFICATION STRATEGY. BARBALHO SAID THAT, THANKS TO US EFFORTS, THE OPEC PRICE INCREASE, ALTHOUGH VERY BAD FOR BRAZIL, HAD NOT BEEN QUITE SO HIGH AS HAD BEEN FEARED. A MAJOR BRAZILIAN CONCERN WAS THE INDIRECT EFFECT ON PRICES OF BRAZILIAN IMPORTS. BARBALHO SAID THE GOB HAD FOLLOWED A POLICY OF DIVERSIFICATION OF ITS OIL SUPPLIES FOR THE LAST TWO YEARS, "WORKING VERY HARD AT IT". HE FORESAW LITTLE CHANGE IN THE SHARE OF SAUDI OIL IN BRAZILIAN IMPORTS IN THE

COMING YEAR. THE DIVERSIFICATION POLICY WAS A STRATEGY FOR THE MEDIUM AND LONGER TERM BECAUSE EXPANSION OF BRAZILIAN EXPORTS TO SUCH MARKETS AS IRAN AND NIGERIA WOULD REQUIRE TIME. BARBALHO EXPRESSED DOUBT AS TO JUST HOW EFFECTIVE THE POLICY WOULD BE EVEN IN THE LONGER TERM, IN VIEW OF THE REMOTENESS OF CERTAIN OF THESE MARKETS AND THE RELATIVE BACKWARDNESS OF OTHERS.

9. COMMENT. AS POINTED OUT IN REF. E, BRAZIL HAS BEEN INCREASING ITS RELATIVE PETROLEUM DEPENDENCE ON THE PRICE "HAWKS", ESPECIALLY IRAQ AND IRAN, AND HAS REDUCED SHARPLY THE SHARE OF ITS IMPORTS FROM SAUDI ARABIA. THE GOB SEEMS NOT TOO CONCERNED ABOUT THIS MISFORTUNE. WE JUDGE THAT BRAZIL BELIEVES THE BETTER LONG-TERM STRATEGY IS (A) NOT TO COUNT ON THE PERSISTENCE OF A PRICE DIFFERENTIAL, AND (B) TO CONTINUE TO USE THE ONLY LEVERAGE BRAZIL HAS WITH THE OIL PRODUCERS (I.E., CHOICE OF SUPPLIERS) IN ORDER TO REDRESS AS MUCH AS POSSIBLE ITS BILATERAL DEFICIT WITH OPEC. THIS, IN OUR JUDGEMENT, IS NOT AT ALL A BAD STRATEGY FOR A COUNTRY WHICH HAS BRAZIL'S
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SPECIAL CHARACTERISTICS: (A) HIGH DEPENDENCE ON OPEC OIL (ABOUT FOUR-FIFTHS OF TOTAL CONSUMPTION), (B) AN ECONOMY AND GEOGRAPHIC LOCATION THAT PERMIT BRAZIL LITTLE ECONOMIC AND NO STRATEGIC LEVERAGE ON OPEC COUNTRIES, AND (C) A DYNAMIC MANUFACTURING SECTOR THAT IS PHYSICALLY CAPABLE OF SIGNIFICANTLY EXPANDING THE EXPORT OF MANY STANDARDIZED-TECHNOLOGY PRODUCTS TO OPEC COUNTRIES. (THE SOYBEAN INDUSTRY ALSO SHOULD BE INCLUDED IN THIS CATEGORY.)
CRIMMINS

NOTE BY OCT: BRASILIA 10591 NOT PASSED BAGHDAD.

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